

Markets
Economics

Trucker Protests Threaten Canada With Inflation, Negative Growth

- Bridge blockade costing nation as much as C\$500 million a day
- Supply snarls seen driving consumer prices even higher



WATCH: Canada's capital of Ottawa is in its second week under siege from truckers and other activists demanding Covid-19 restrictions be removed. *Source: Bloomberg*

By Erik Hertzberg and Esteban Duarte
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Escalating blockades of key border crossings could lead to a contraction of Canada's economy in the first quarter and the new supply snarls have the potential to fuel inflation, economists say.

Growth was already poised to slow sharply at the start of 2022 after the nation was hit with lockdowns meant to contain the omicron variant of Covid-19. Now, disruptions to commercial traffic -- potentially

costing the Canada's economy as much as C\$500 million (\$395 million) daily -- could put the recovery in reverse.



Protesters block access to the Ambassador Bridge in Windsor, Ontario on Feb. 9, 2022. *Photographer: Galit Rodan/Bloomberg*

“As this drags on, and even spreads to more border crossings, it’s increasingly a threat,” Avery Shenfeld, chief economist at Canadian Imperial Bank of Commerce, said by email, adding he had already been anticipating flat growth for the quarter before the blockades. “It wouldn’t take much of a headwind to tilt that slightly into the negative.”

Protesters have been blocking access to the Ambassador Bridge between Detroit and Canada -- the most important link for goods moving between Canada and the U.S. and a crucial artery for auto parts suppliers and manufacturers. The blockade started Monday as an offshoot of the trucker convoy occupying downtown Ottawa to protest against a vaccine mandate for drivers who travel across the border.

Demonstrations have also shut down border crossings in Manitoba and Alberta, disrupting shipments of agricultural products and other goods.

The blockades not only are a drag on growth. They risk further straining supply chains and intensifying price pressures that are already at the highest level in three decades.

'We Don't Need This'

"At least as important is the potential implication for near-term inflation pressures from this new supply chain kink," Doug Porter, chief economist at Bank of Montreal, said by email.

Bank of Canada governor Tiff Macklem has also warned a prolonged blockage of key trade routes would have an impact on the economy. "We've already got a strained global supply chain, we don't need this," he said at a press conference Wednesday.

Andrew Husby, an economist with Bloomberg Economics, estimates the truck back-ups could subtract about 0.3 percentage points from annualized growth per week. That implies up to C\$500 million a day "at risk," pushing first-quarter output into negative territory in just a couple of weeks, Husby estimates.

"The longer the protests continue, the higher the chances of an outright contraction will rise," Husby said Thursday in a research note.

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To be sure, most of the lost output could prove temporary. Production and export delays can be shifted forward into future months, though the indirect effects to employee wages and incomes are harder to recoup. The auto sector has a long history of quickly coming back from closures, economists say.

Yet, the blockages do put the Bank of Canada in a bind, with the higher inflation forcing the central bank to hike in the middle of a slowdown.

"Given the fact that cross-border trade flows are being disrupted, it already is an economic event," said David Rosenberg, a former Merrill Lynch economist who launched his own firm, Rosenberg Research & Associates Inc., in 2019. "But it cuts both ways since it will mean more acute shortages and bottlenecks and that is going to be problematic for inflation."

Markets are fully pricing in the start of a rate hiking cycle by the Bank of Canada at a policy decision on March 2, with some investors betting the central bank will begin with an increase of 50 basis points. The blockades increase the chances of a half-percentage-point move, according to Toronto-Dominion Bank.

“It would feed into higher inflation so increasing the optionality to hike 50 basis points in March,” Mark McCormick, TD’s global head of foreign-exchange strategy, said by email.

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